

**Talking Points for
Presentation by Ronald Utt
To the
Citizens' Task Force on Chargers Issues
January 8, 2003
San Diego, California**

In most instances where public funds are sought, new stadiums are sold as engines of economic development, and there are a dozen or so consulting companies available to quantify these alleged "positive" economic impacts on the community.

Typical is that prepared for Baltimore cited by a witness in an earlier statement here: "An average Orioles season will generate \$117 million in gross sales, \$44 million in earnings, and over 1,500 full-time jobs". Claims 46 percent attendees from outside area? What's the area? Total statewide impact said to be even greater

...or the one prepared for Cincinnati, where two facilities are said to have an impact of \$1.1 billion. Residents gained \$373 million in earnings, and got 18,641 new jobs from construction process...

...or Cleveland's Jacobs' Field, which is said to have created 6,269 jobs, and \$6.5 million in payroll taxes.

For some cities – especially those like the three above which have struggled economically through most of the postwar era, and are still on the downward slope – such prospective benefit claims are seductive, particularly when made by top-notch consulting firms.

Consider the case of Baltimore, which in the 1980s enthusiastically embraced the entertainment infrastructure strategy to an extent that is probably greater than any other city with new stadia, Orioles Park and Ravens Field, museums, subsidized harbor/park facilities, parking, convention centers, light rail and stations – called Harbor Place. It is a wonder, foreigners come to study it and imitate.

Yet what was the result? Not much, or even worse. Between 1990 and 2000, Baltimore was just one of a handful (15 %) of U.S. cities with over 100,000 people to lose population. Within the top fifty cities, Baltimore's decline was second worst – St. Louis was the worst, and it too, had a new football stadium to house its new team, the Rams. If we extend scope of review to top 55 U.S. cities, Cincinnati recorded the third worst decline.

So, notwithstanding the extraordinary public commitment and investment, these few anecdotes suggest that the economic impact, based upon what actually happened, was

fairly dim, and certainly not in keeping with the magnitude of economic benefits the consultants suggest occur.

Lets look more closely at Baltimore:

--Lost people, jobs and business consistently through two stadium cycles.

--Government perennially short of money: Closed one-fourth of public libraries in last few years.

--Public school students rank last in state. Fewer than 10% rank “proficient” or better in standardized test.

--Crime rate is still severe despite national decline. The Morgan Quitno organization ranks Baltimore the second most dangerous of cities with more than 500,000 population.

--Only 62 percent of Baltimore school –aged children had their documented immunizations compared to 80 percent in Kenya, as estimated by U.S. AID.

--An estimated 60,000 people, or ten percent of population, are estimated to be heroin addicts.

The absence of any appreciable or discernible positive stadium related economic outcome in Detroit, Baltimore, Cleveland, St. Louis and others, would not have surprised those academic, university-based economists who have studied the economic impact of such facilities by way of systematic analysis of nationwide data for dozens of cities. Unlike almost any other sub-field of economic inquiry where contending and contrary views prevail and economists batter each other with alternative findings, in this field the many studies reveal almost universal agreement on the absence of any meaningful positive economic impact from any of the stadiums built/or teams created or relocated.

Explain *ex post* nature of these studies: What actually happened vs. What could happen.

The consultant studies noted earlier and summarized to this task force by an earlier witness are likely of the What could happen type, and are based upon what we economists refer to as “multiplier analysis”. As I will discuss a little later, multiplier analysis has validity only under a limited range of somewhat artificial assumptions, and as such are of limited usefulness in trying to estimate the actual benefits that may follow from a new sports facility.

By way of contrast, in the What Actually Happened studies, the analyst looks back over the community’s economic performance since the facility was built and asks the question of whether we can actually identify any economic improvement attributable to the facility’s construction and operation.

Using a few anecdotes to illustrate the case before discussing the results in detail, the question being asked is: How is it that Los Angeles and Houston can lose a football team but have economies that grow at above average rates, while Baltimore and St' Louis each gain a team and a new facility and have economies that faltered?

Or consider this: How is it that George Steinbrenner can believe that moving the Yankees out of the economically-depressed Bronx neighborhood it is in will help his team, but that the sixty some year presence of the Yankees in the Bronx seems not to have helped the neighborhood?

But these are just anecdotes, lets look at the studies:

Robert Baade and Richard Dye (1990) performed a comprehensive, muti-year, multi-city statistical analysis and find that "stadia and new franchises have little discernible effect on the income level of an SMSA." ("Stadiums and Professional Sports on Metropolitan Area Development, in Growth and Change, 12, 1-14)

Robert Baade (1994) studied 48 cities over 30 year period to estimate impact. In the thirty-two cities that experienced a change in the number of sports teams, thirty saw no change in per capita income, one improved and one worsened. Of the 30 having a change in the number of stadia or arenas, 27 showed no influence on income, but three experienced significant negative effects.

Upon some reflection, sports slow growth pattern should not be surprising. The slower growth reflects the kind of economic activity that investments in professional sports spawn. Sports divert economic development toward labor intensive, relatively unskilled (low wage) part-time jobs. Other cities in the region that invest in economic activity that promotes full-time, non-seasonal, and high wage jobs can be expected to capture a greater share of the regional economic pie.

(From Robert Baade, Statement to the Subcommittee on Antitrust, Business Rights and Competition, Senate Committee on the Judiciary, November 29, 1995, reprinted in Should Congress Stop the Bidding War for Sports Franchises, Heartland Institute.)

Baade and Sanderson (1997) conducted a ten city analysis and concluded that:

"...the results of this study do not support a positive correlation between professional sports and job creation. This study suggests that professional sports realign economic activity within a city's leisure industry rather than adding to it. Furthermore, there is evidence to indicate that creating jobs through subsidies for sports is inefficient and costly. In addition, the jobs can be characterized as low paying, and the present value of the return on a city's investment is likely to be quite low in comparison with investment alternatives such as the subvention for a location of an industrial park or department store."

(From Robert Baade and Alan Sanderson, “The Employment Effect of Teams and Sports Facilities” in Noll and Zimbalist, *Sports Jobs and Taxes*, Brookings Institute Press, 1997.)

Mark Rosentraub (1997) conducted a 12 city study to determine if stadia have a positive influence on core, or slow the rate of decline.

“In contrast to cities that did not build downtown sports facilities, the experience of cities with these assets is not encouraging. For example, from 1980 to 1995, the population levels in downtown areas in cities with downtown sports facilities declined more than in the other communities. Job levels in the CBD areas declined in both sets of communities at relatively the same rate. CBDs with downtown sports facilities did lose fewer service sector jobs, but the presence of sports facilities did not substantially affect the loss of jobs in the [other] sectors.”

(From Mark S. Rosentraub, “Stadiums and Urban Space”, in Noll and Zimbalist, 1997)

Perhaps the most disturbing finding was that from one of the more recent studies, a 1999 report by Professors Dennis Coates and Brad Humphreys which, in a study of 37 metro areas, concluded:

In contrast to other existing studies, we find evidence that some professional sports franchises reduce the level of per capita income, casting doubt on the ability of a new sports franchise or facility to spur growth.

(Dennis Coates and Brad Humphreys, “The Growth Effects of Sports Franchises, Stadia and Arenas”, University of Maryland Baltimore County, January 22, 1999)

Reason for this may have to do with over investment in less productive assets (stadia vs. schools), shift from high impact to lower impact leisure spending (local golf vs. professional football), or leakages out of the community – player salaries.

Around 55 % to 60 % of team revenues go to player salaries, and in most metropolitan areas professional sports team members live elsewhere. According to a New York City stadium study in 1998: “just two of the current Yankees and Mets players (and none of the managers and coaches) have their primary residence in New York City.”

In contrast to these universally negative findings of the What Did Happen studies, the often positive findings of the What Could Happen studies usually, but not always, prepared by consultants on behalf of team advocates, often show very bullish outcomes.

For the most part the predicted impacts of these studies are prepared according to what we economists call multiplier analysis – the idea being that any dollar spent on something circulates several times from business to business so that its impact is *multiplied* several times.

Example: Buy a hot dog... part of price pays the vendor and cook, in turn, that fraction of pay to them helps buy their groceries, or pay rent, and so on and so on until only pennies are left.

Problem is that this type of analysis offers an accurate description of the process and its impact only within a narrow range of assumptions that generally don't exist in the typical community for the typical sports team.

1. Is new money – Often assume all revenues generated are net new spending for the community
2. No substitution – Spending on sports attendance is often at the expense of other entertainment options – less golf, more NFL attendance
3. No leakage from area – all money is spent in community, and assumes that all players reside there full time.

When adjustment is made for each of these shortcomings, properly done multiplier analysis often yields estimates of negligible impact. Moreover, competing studies often find contrary results.

A What Could Happen study for Baltimore Ravens stadium predicted a very positive impact but two studies by Maryland government agencies concluded otherwise. An analysis by Maryland's Economic Development Department concluded that the state's then projected \$177 million investment would produce 1,394 full time jobs, or a cost of \$127,000 per job. A later study by Maryland's Office of Policy Analysis upped the cost to \$200,000 per job. By way of contrast, another Maryland job's program called the Sunny Day Fund cost \$6,250 for each job it created. (See sources of Baltimore references in Ronald Utt, "Cities in Denial: The False Promise of Subsidized Tourist and Entertainment Complexes", Heritage Backgrounder No. 1223, October 2, 1998)

In New York City, in response to a request for a publicly funded ballpark to serve the Mets and Yankees, a What Could Happen study by the city's Independent Budget Office, which incorporated the types of leakages discussed above, concluded that a new park serving both teams would add just 570 new jobs to the city, increase city tax revenues by \$4.9 million, and increase city output by \$111 million. ("Double Play: The Economics and Financing of Stadiums for the Yankees and Mets." Independent Budget Office, City of New York, April, 1998)

The real flaw in any of these What Could Happen analyses is that they don't ask the question: In Comparison to What? If the city really was interested in promoting economic development, and suddenly \$300 million was dropped on the steps of City Hall, would city leaders conclude that a stadium offers the best deal, or would it rebuild and enhance the public schools, or add another university, or build a new medical school, or improve roads, or clear blight? That's the real decision.

What can a city buy for \$300 million? Domino's Pizza founder Thomas Monaghan is planning to spend \$220 million of his own money to build a brand new university in near Naples Florida. Thus, the amount of money at stake in your typical stadium decision buys quite a bit, and some of those alternative purchases may be more highly valued by the citizens. But that is your choice, and your decision, and certainly something worth considering as you work your way to a final recommendation.